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DEVELOPMENT OF THE BUILDING MATERIALS INDUSTRY

Addendum

FINANCING OF THE BUILDING MATERIALS INDUSTRY IN DEVELOPING COUNTRIES *

prepared by the

UNIDO secretariat

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1. The reader is referred to the Issue Paper 1, entitled "Development of the building materials industry" (ID/WG.434/2) and to paragraphs 25 and 26 on the cost of cement plants and to paragraphs 27 to 35 on the question of their scale.

2. The Global Preparatory Meeting (Vienna, 24-28 September 1984) recommended that the present Consultation consider the following subject: the development of the building materials industry, including financing, planning and programming methods, emphasizing alternative scale plants, particularly in the cement industry. It also requested that UNIDO prepare studies on the financial implications of cement plants of different sizes.

3. In the intervening period, the UNIDO secretariat has carried out some further investigations on the financing of the building materials industry. These have revealed a considerable lack of information which, particularly in the short period of time, has made it impossible for the UNIDO secretariat to carry out a full study on the subject, and in particular on the financial implications of cement plants of different sizes.

4. It is the intention of the secretariat to examine certain subject areas and to report on the findings to a possible Second Consultation on the Building Materials Industry. The objectives of the UNIDO secretariat are to:

(i) Examine the terms, conditions, maturities and modalities of external finance for the construction of plants for the production of different building materials;

(ii) Assess the implications of the policies of lending by various sources of external finance in the development of the building materials industry in developing countries;

(iii) Assess the various negotiating techniques and possible avenues for obtaining external financing for investment in order to obtain the greatest degree of national autonomy in the formulation, implementation and operation of the project.

5. To facilitate the work of the secretariat, information falling into the following categories is required:

(i) Historical information on the involvement of different external financial sources (World Bank, IC export credit agencies etc.) in investment in the sector (project by project if possible);

(ii) Local investment for these projects, their purpose, and magnitude in total investment;

(iii) Relationship (if any) of differences in initial cost of plant and equipment with different sources of finance;

(iv) Analysis of differences in realized costs (= initial capital cost and debt service and interest) by source of finance, i.e. multilateral lending, bilateral ODA, export credits, own resources, commercial borrowing;

(v) Differences in envisaged investment and realized investment due to which factors, i.e.:

- increase of capital equipment cost;
- time delays in project implementation;
- changes in terms and conditions of finance;
- others.

(vi) The influence of different financial sources on:

- scale of project;
- choice of technology;
- country or source of supply of capital equipment;
- discrimination against local project management and consultancy services etc.;
- discrimination against local capital components.

(vii) Financial problems relating to development of infrastructure and training;

(viii) Dissonance between institutional criteria of the bankability of projects and national development priorities, i.e. some assessment of why projects were rejected by either side or projects of one type were substituted for others;

(ix) Main negotiating guidelines for unpackaging finance and technology and retaining national autonomy in project formulation, evaluation, technical specification, and construction.

6. In addition, to facilitate the contribution of information specific to the cement industry, a special questionnaire has been prepared and is annexed to this Note. It is hoped that participants will provide answers to the questions posed in the near future.

First Consultation on the Building Materials Industry
Athens, Greece, 25-30 March 1985

QUESTIONNAIRE TO PARTICIPANTS ON THE FINANCING OF THE CEMENT INDUSTRY

Introduction

The Global Preparatory Meeting for the above Consultation was convened in Vienna from 24 to 28 September 1984 and was attended by 25 participants from 20 countries, representatives from United Nations bodies, non-governmental organizations and several observers.

The meeting noted the diversity of this sector and the crucial importance of the cement industry and requested UNIDO to prepare appropriate documentation, including studies on the financial implications of cement plants of different sizes. It, therefore, recommended that alternative scale plants be examined. Furthermore, the current trend in some developed countries towards small-scale plants as well as the experience acquired by some developing countries in this area could also be taken into account.

To enable the UNIDO secretariat to prepare this documentation, it would be appreciated if the following questions could be answered on the basis of your experiences in the development of this sector in your country.

Questions pertinent to the development of the cement industry

(It is understood that any information provided will be treated confidentially)

1. Indicate how many cement plants and of what different sizes have been constructed in your country over the past five years?

   i) What is the present and the projected future demand for cement for the next five years?

   ii) Is the present demand for cement met by local production or imports?

   iii) What is the present installed capacity vis-á-vis actual poroduction?

   iv) Did you achieve the projected production target?

   v) What is the current local factory cost (ex. factory compared to cost of imported products (CNF)?

vi) What is the expected production situation over the next five years? Will it be advantageous to expand local production, to create in the future new plants or to continue to import?

vii) If local production is an advantage, indicate any illustrative cement plants.

viii) If the actual production falls short of the installed capacity, have you identified the reasons for it?

ix) Where was technology obtained from? (i.e. turn-key, with foreign partners, joint ventures or under licensing agreement)

x) Do you need assistance to improve the efficiency of the plant? If so, what type of assistance do you need?

2. If the basic raw materials for cement production are available and you are interested in setting up a new cement plant, are feasibility studies available?

If so, who prepared them and how were they financed? Do you need UNIDO's assistance in preparing feasibility studies?

3. Which sources of financing/financing institutions did you contact for the construction of cement plants in your country?

i) What was their reaction and what difficulties did you face?

ii) Does your Government's industrialization policy provide opportunities/facilities for foreign investment in this sector?

iii) Where did you ultimately obtain the financing from?

iv) Can the cement company's balance sheets be made available?

v) Can you provide the operating figures, including profit and loss accounts for the last three years, if available?

vi) Do you need assistance in contacting foreign investor groups to establish new cement plants or to expand existing ones? Can UNIDO assist you in this respect?